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CAN THE U.S. REGAIN THE LEAD IN SPACE?

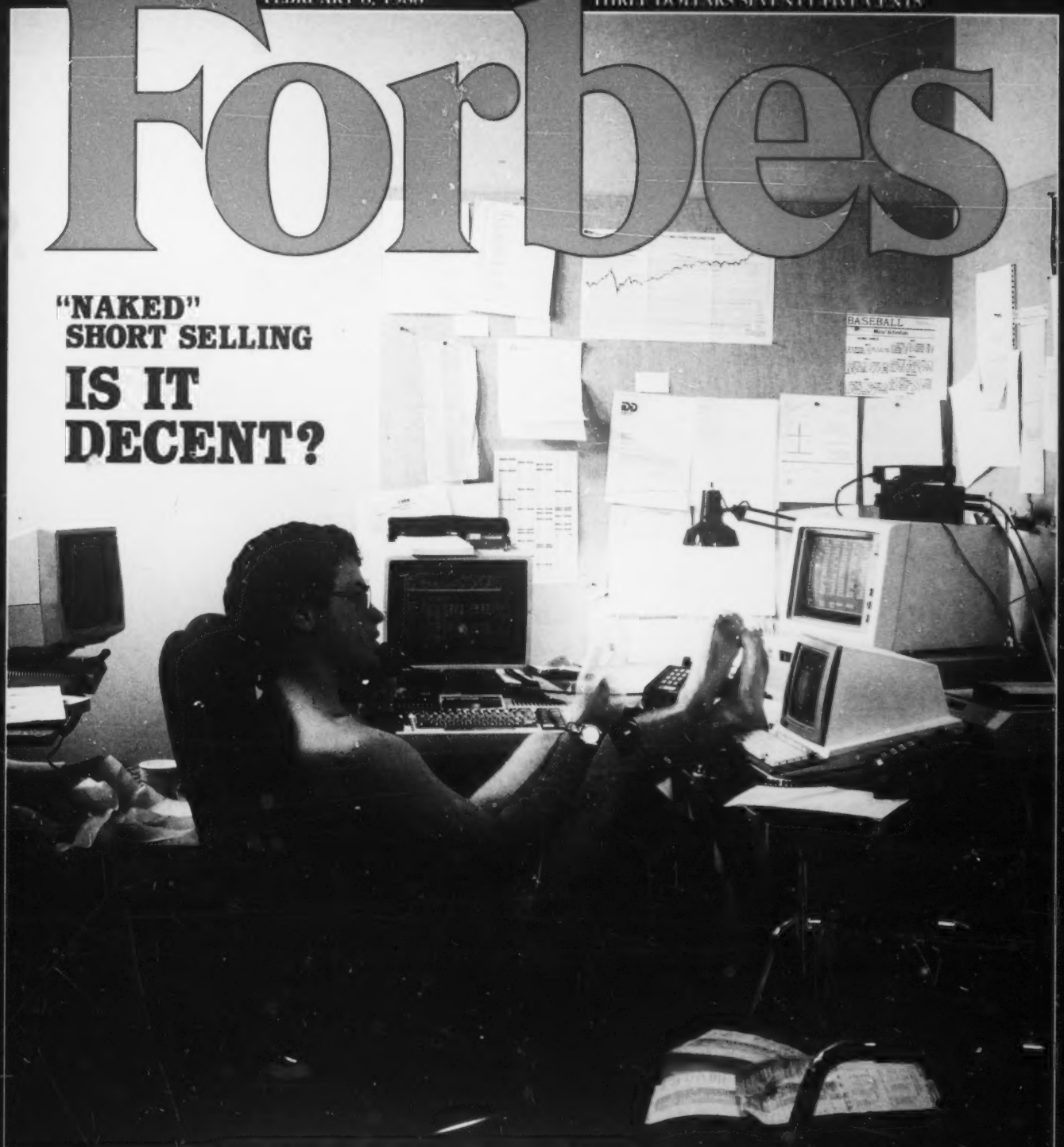
POSTCRA… FUND RATINGS

FEBRUARY 8, 1988 THIRTY DOLLARS SEVENTY-FIVE CENTS

Forbes

"NAKED" SHORT SELLING

IS IT DECENT?



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MICHAEL P STERN
CONGRESSIONAL INFO SVC
4520 EAST WEST HWY#800
THESDA MD 20814

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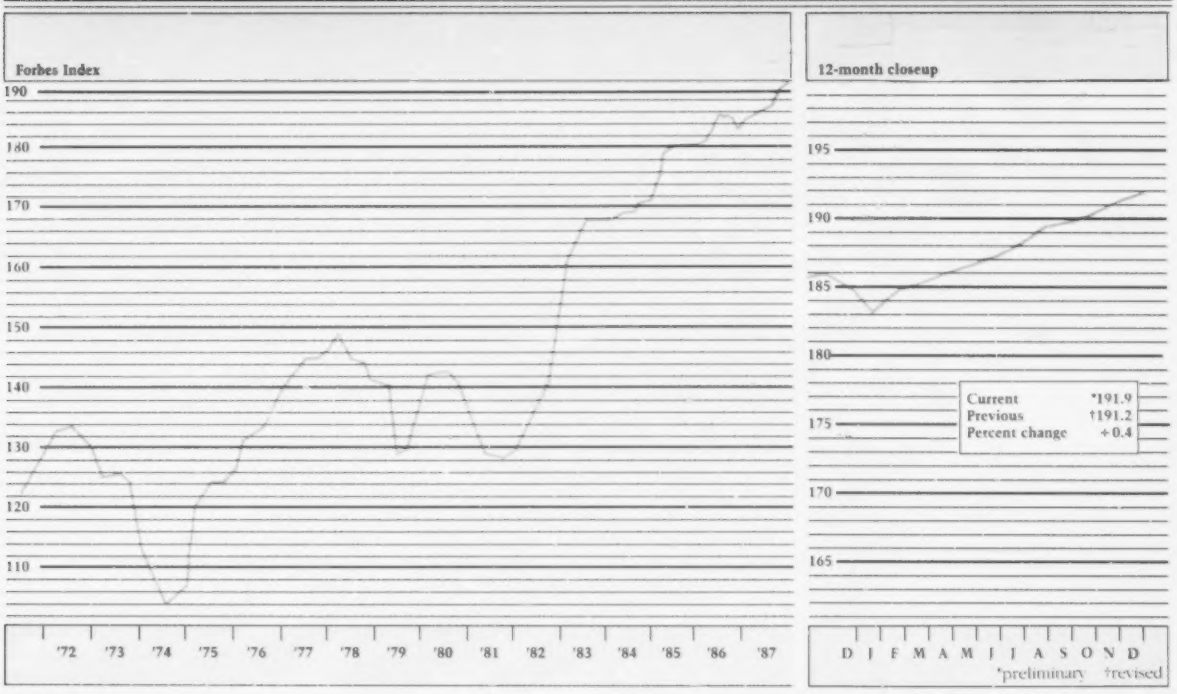
The Forbes Index



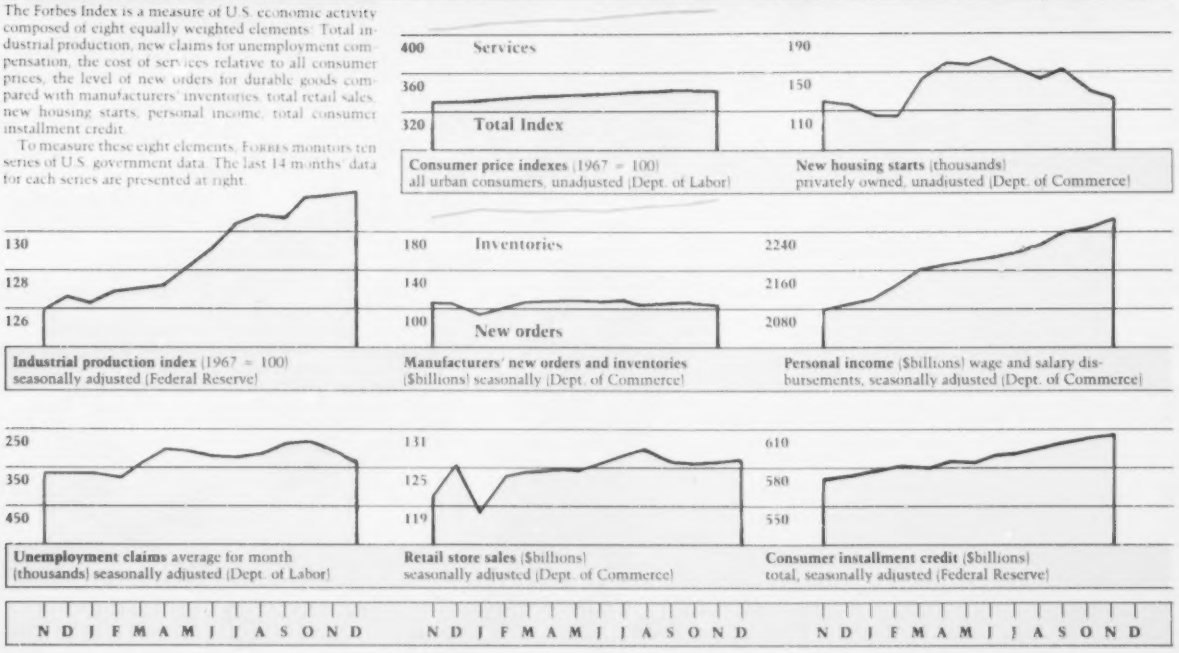
Steady as she goes. The economy appears to be holding up rather well. The holiday season wasn't spectacular but it wasn't the dud that some had predicted. Retail sales increased 0.7% in December, off 0.2% compared with December 1986. But the year-earlier period was distorted by a rush of last-minute auto sales prompted by scheduled changes in the 1987 tax code.

Industrial production rose 0.2% in December and finished the year with a 4.8% gain. The November figure for consumer installment credit showed a 0.4% increase. Preliminary results indicate a 0.4% gain in the Forbes Index in December.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


400
360
320
Services
Total Index
190
150
110
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
130
128
126
180
140
100
Inventories
New orders
2240
2160
2080
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
350
450
131
125
119
610
580
550
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
N D J F M A M J J A S O N D
N D J F M A M J J A S O N D
N D J F M A M J J A S O N D

Numbers Game

When companies make stock buybacks, they call them investments. When the investments bomb, they call in accountants.

Losses? What losses?

By Penelope Wang

LAST SEPTEMBER, Hospital Corp. of America, fresh with cash from the sale of 103 acute-care facilities, decided to invest a portion of the proceeds in some of its own stock. Its board authorized a buyback of 12 million shares at $47 a share. HCA has spent $564 million to repurchase about 12 million shares, but after Black Monday the stock plunged. By year's end the shares stood at only 31⅛. So is HCA now out $190.5 million on its investment?

Common sense would answer with a resounding yes. But beyond common sense lurks the logic of accounting, and according to current accounting principles HCA didn't lose a penny on the buyback. Moreover, that's exactly what the company's annual report will reflect.

Call it the no-risk investment, a key reason buybacks have become the with-it new way to deploy shareholder money. In this era of stock market volatility, no other use of money offers firms the same opportunity to tell shareholders that they have made a terrific investment—without ever having to own up to the bad news if it turns sour. Says John Tighe, partner at the accounting firm of Deloitte Haskins & Sells, "You'd have to be a pretty sophisticated investor to figure out that a company lost money on its own stock."

Many of the 1,500 corporations that authorized buybacks in 1987 have since seen their stock prices drop below the purchase price. But investors won't see those losses in the financial statements. Why not? Because a 1938 securities rule, which effectively prevents firms from speculating in their own corporate stock, requires repurchased shares to be held as treasury stock or retired.

To account for a buyback, either the company's assets get reduced or its debt load gets raised by an amount equivalent to the cash used (or borrowed) to pay for the deal. Doing so reduces corporate equity. But the shares that are acquired in the process also disappear. "You're simply closing out a transaction that began when you issued the securities," says Peter Knutson, associate professor of accounting at the Wharton School. "There are no further losses to write down."

It's a different story when a company buys stock in another firm. Then, the corporation usually counts its equity holdings as long-term assets. If the stock goes down, those assets must be marked to market at the end of each reporting period. Moreover, if there are significant losses in that item, the firm must disclose the loss, often in a footnote. In 1986 the Williams Cos. lost $239.7 million, mainly because of a writedown of its long-term investments.

As a practical matter, the only real advantage arising from a buyback is to reduce the number of shares outstanding in the market. One reason for wanting to do so might be to help guard against a hostile takeover. That's what GenCorp., an aerospace concern, had in mind last spring when it paid $1.6 billion to acquire 12.5 million shares from the public at $130 a share, only to see the stock price eventually decline to 22½ by year's end anyway.

Alternatively, the purpose of a buyback might be simply to ginger up the stock. This could occur if a company's business generates more net income than the yield available on T bills, for example, or perhaps short-term certificates of deposit. In that case, earnings per share would go up and (presumably) the stock's price would subsequently rise.

Though buybacks, practically speaking, amount to little more than zero-sum games, such companies as ITT, Kraft and IBM now routinely refer to them instead as "investment opportunities" and "good buys." Says a spokesman for Burlington Industries, "We feel that our stock repurchases are an attractive investment and an excellent opportunity to build shareholder value." Burlington authorized the buyback of up to 5 million shares after the market crash.

And small wonder it did so, since current accounting rules offer so few useful clues that buybacks can just as easily be a waste of money as a clever use of it. Says Jerry Castellini, vice president at Kemper Financial Services: "Anytime you make an investment with corporate assets and lose money, it's a loss to shareholders and poor use of corporate capital." Shouldn't accounting rules reveal this important truth, rather than help obscure it? ■

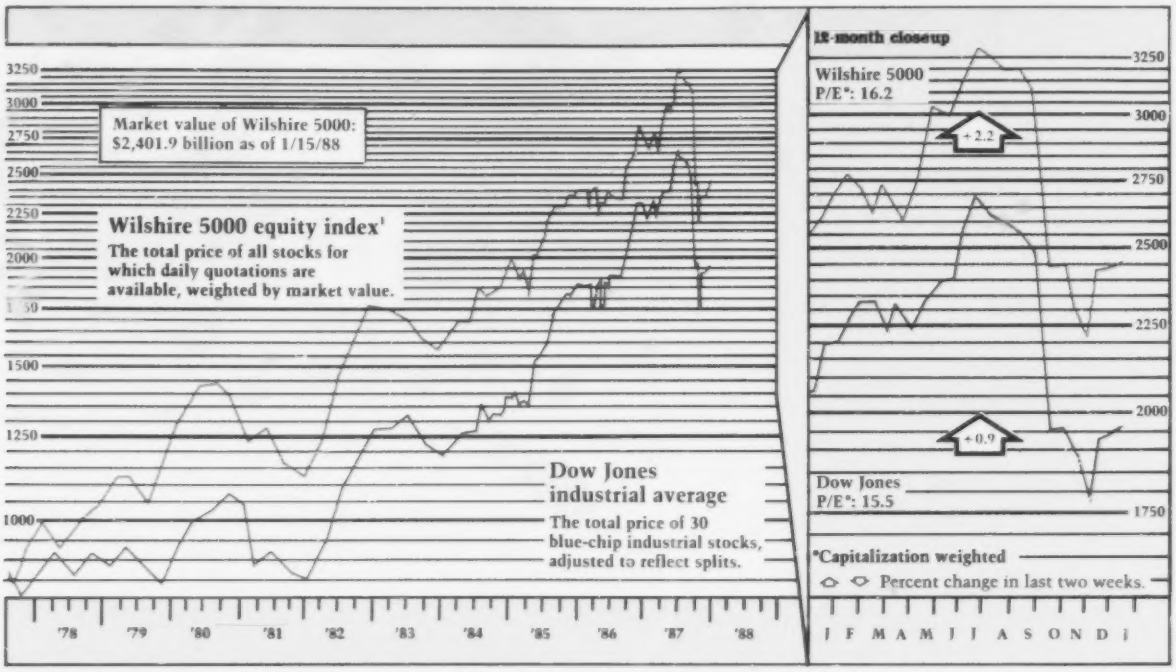
Seven buyback losers

Company	Date buyback annced	Price on day before annced	Shares bought back (millions)	Dec. 31 price	"Losses"* ($millions)
Allied-Signal	9/25†	44½	27.4	28¾	$289.3
ITT	4/7	63	8.0	45	40.0
Hospital Corp of Amer	9/17	47††	12.0	31⅛	190.5
Kraft	10/1	57¼	2.8	48	26.0‡
IBM	2/24†	[illegible]	19.0**	116⅜	288.9**
GenCorp	4/6	130††	12.5	22½	1,118.8
Merck	7/28	184½	5.7	158⅞	94.4

*Based on latest reported purchase price. †Several buyback plans in effect. ††Self-tender. ‡Estimate.
**Includes 1986 repurchases.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



The old new volatility. Encouraging news on the November trade deficit figures sparked a 40-point jump in the Dow on Friday, Jan. 15, the last day of the two-week trading period under review here. So despite the sharp plunge one week earlier, the Dow ended the two-week stretch with a 0.9% gain. Meanwhile NYSE issues advanced 2.1%, Amex 3.1% and Nasdaq 2.9%. The Wilshire index of more than 5,700 issues posted a 2.2% increase.

This market's volatility is astonishing, but we seem to be getting used to it. The first four days of 1988 saw a rally that brought the Dow industrials to 2051, their highest point since the October meltdown. Then came heavy selling attributed to profit-taking and worries about the dollar. The resulting 141-point loss on the Dow was the third worst on record and left many market observers drawing parallels with the Friday collapse that preceded the Oct. 19 debacle. The fact that it didn't happen is a comfort, but nothing to build the immediate future on.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	4.2	3.8	1.6	3.8	6.8	6.5
in last 52 weeks	–7.8	–6.6	–5.8	–7.3	–7.7	–12.8

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	4.8	15.6	17.1	8.0	8.8	9.5	6.0	13.9	15.9	6.1	4.7	17.2
in last 52 weeks	–5.4	8.5	10.8	3.9	–9.6	–9.3	–8.8	18.3	12.9	–4.1	–4.8	6.0

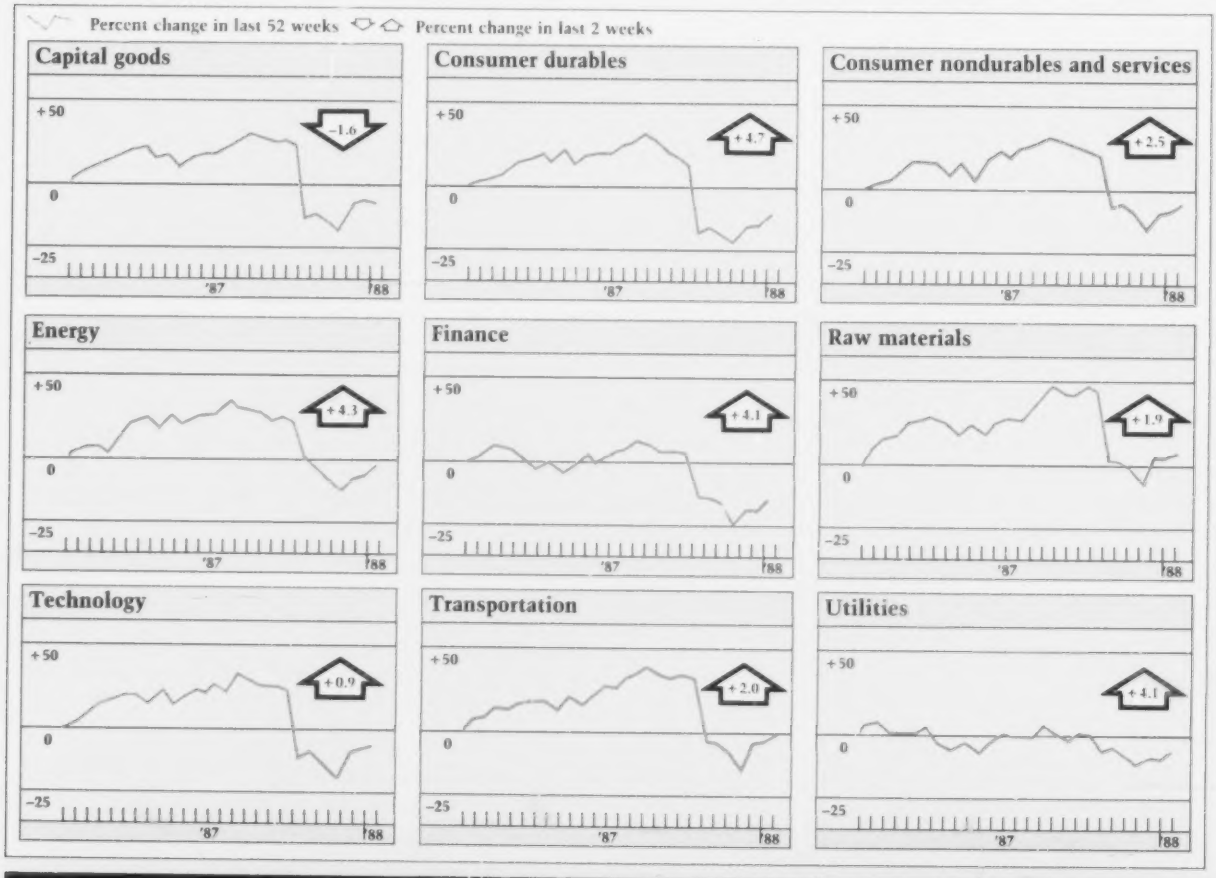
[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 1/15/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Where the Action Is

The contrarians are watching. Finance stocks outperformed the market by almost a 2-to-1 margin in the last two weeks. Best performer: Farmers Group, which gained 38% on a buyout offer from B.A.T Industries. Four major banks—Barnett Banks of Florida, NCNB, Irving Bank and Security Pacific—followed with gains in the midteens.

Chalk it up to contrarian sentiment. With Wall Street still making the biggest cuts in 1988 earnings estimates for finance companies, the estimated 1988 P/E for this group is down to 7, vs. 10.3 for the Forbes Sales 500 *(see table below)*. Over the last 52 weeks finance stocks, plagued by loan writeoffs, lost nearly a fifth of their value. The decline in finance was almost twice that of utilities, the second-worst-performing sector.



What the Analysts Think

The buck hops here. In the last two weeks security analysts made slight upward revisions in the 1988 earnings estimates for domestic capital goods and consumer durable firms—presumed beneficiaries of the cheaper dollar. Among companies with higher forecasts: Deere & Co., Caterpillar, Ford Motor and B.F. Goodrich.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.39	15.4
1988 estimates	3.57	10.3
1989 estimates	NA	NA

NA: Not available.

Rank based on change in estimate	Sector	Estimated 1987 EPS	Estimated 1987 P/E	% change in 1987 estimate in 2 weeks	% change in 1987 estimate in 4 weeks
1	Capital goods	$2.51	14.5	0.35%	-0.55%
2	Consumer durables	4.23	11.4	0.26	-1.65
3	Raw materials	2.85	11.1	0.16	0.4
4	Utilities	3.06	9.5	-0.09	-0.12
5	Technology	2.93	11.2	-0.18	-0.28
6	Consumer nondurables	2.57	12.3	-0.27	-0.53
7	Transportation	2.53	11.6	-0.35	-1.53
8	Energy	2.98	12.1	-0.46	-0.74
9	Finance	3.46	7.0	-0.75	-2.42

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 1/15/88. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.

Some funds with terrific long-term records haven't earned very much money for their customers. How is that possible?

Bad timing

By William Baldwin

IF YOU COULD PICK funds with hindsight, one excellent choice for Dec. 31, 1977 would be Twentieth Century Income Investors. A tiny ($1.6 million) fund in those days, it owned smallish companies like Kinder-Care, Community Psychiatric, Herman Miller and WD-40. Those stocks took off and the fund, renamed Twentieth Century Select, delivered an average annual gain of 24.3% over the next ten years, nine points ahead of the S&P 500. The fund's assets at Dec. 31, 1987: $2.4 billion.

The fund's explosive success has made its chief stock picker, James Stowers, a wealthy man. The management firm of which he is a majority owner took in $27 million in fees in its last fiscal year on that one fund. But did the fund make its clients wealthy? Not the latecomers. Assets remained fairly low in the first half of the ten-year period, when Stowers was soundly beating the market. Most customers arrived in the past five years, just in time to watch the fund's performance turn mediocre.

You can't buy past performance, goes the old adage. Indeed you can't buy it. But people sell it all the time. Who could turn away $27 million in fees?

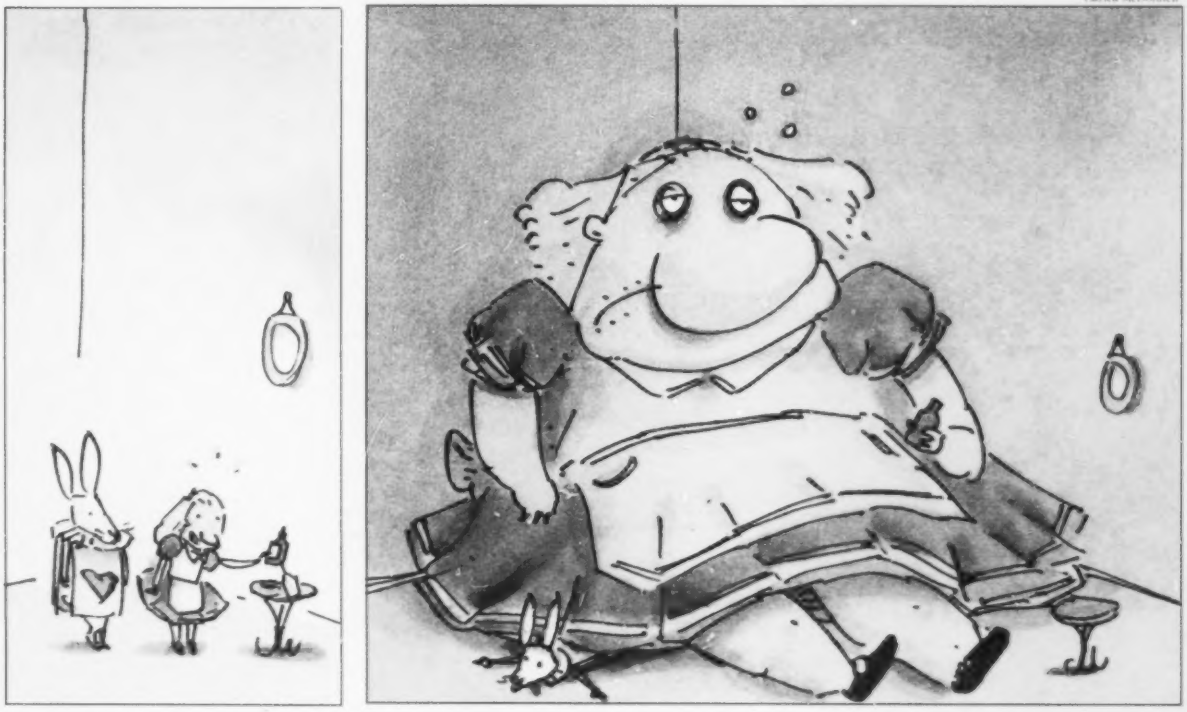
Such cycles of boom and blah are commonplace in the fund business. A small growth manager puts together a dazzling record, the money rolls in, then his performance cools. Stowers made his reputation in small growth companies. But a thousandfold growth in assets made Select too big to benefit from a position in small companies. Now its portfolio is heavy with Merck, Kodak and Motorola.

Stowers thinks his growth stocks—even big ones—will soon be beating the market again. "We're looking for the most successful companies, [those whose] earnings and revenues are accelerating," he says. Maybe so, but investors should realize that the Select they are buying today isn't the same Select that built a superb record.

Johnny-come-lately investors in Stowers' fund have plenty of company. The best fund record of all over the past decade belongs to Fidelity Magellan. If you had bought this obscure ($22 million) fund in December 1977—six months after Peter Lynch took over—you'd be sitting on a fabulous 31% annual return now, double the market average. But you couldn't have bought it then. From 1966 to mid-1981 the fund was closed to everyone but Fidelity employees establishing profit-sharing accounts.

Peter Lynch is perhaps the most famous fund manager alive. On the strength of his reputation, Fidelity Management & Research sold almost $1.3 billion in Magellan shares in just six months last year (to Sept. 30). That figure

Patrick McDonnell



counts only sales on which the 3% load was collected (the load is sometimes waived for such clients as large thrift plans). That was $38 million in sales commissions. During those six months the giant fund, which had its assets go as high as $12 billion before the crash, threw off another $40.7 million in management fees.

So Peter Lynch has made big money for his employer. Has Peter Lynch made big money for fund investors? To answer that question we turned to a statistic used by pension consultants, the so-called dollar-weighted performance. This average gives greater weight to months in which the manager has more money to manage. It contrasts with the much more common time-weighted average, in which all months count equally.

Here's how the dollar-weighted average works. Think of Magellan as a bank account paying a fixed, but unknown, rate of interest. The depositor is the investing public. The public opens the account with $22 million, the net assets on Dec. 31, 1977. Each month the public makes a deposit or withdrawal, a known sum calculated from sales and redemptions of Magellan shares. What annual interest rate would the public have earned every year to end with Magellan's $7.8 billion of net assets on Dec. 31, 1987?

Magellan's dollar-weighted performance over the decade is an astonishingly low number, 13.4%. Who's to blame? Not Lynch. It wasn't his doing that he had only $22 million to play with in his best years, $10 billion going into the crash. The fault is the investing public's, with its typically ill-timed rush into the market after the party was mostly over.

The moral here is not that funds with hot records are hazardous. If the small investor was going to make the mistake of doing most of his buying in the past five years (and most did just that), he was better off in Magellan than he would have been buying an index fund tracking the S&P. But still, he'd have averaged a better return putting a lump sum into an index fund ten years ago than he would have investing in Magellan with the timing of the typical Magellan customer, bunching most dollars toward the end.

Time-weighted performance remains the standard by which money managers should be judged, and it is the basis for the performance grades in the tables that begin below. We judge stockpicking skills, not investment results. And while past performance is no guarantee of the future, it is the best measure of skill we have.

There is, nonetheless, an important lesson to be learned from the sometimes wide gulf between dollar-weighted and time-weighted performance figures. It is better to buy even a mediocre fund, and stick with it for the long pull, than to buy into a top-scoring fund and exit right after a crash. The $1 billion or more of Magellan owners who left following the crash probably made a big mistake. ■

Growth funds

Two of these—Magellan and Select—have grown explosively in the past decade, with a 25,000% or greater gain in assets under management. The same two did much better when they were small than when they got big. That is reflected in the wide gulf between time-weighted and dollar-weighted performance *(see story)*.

Fund	Assets[1] ($mil)	—Annual return[2]— time-weighted	dollar-weighted	Relative —performance[3]— 1977-82	1982-87
Fidelity Magellan	$7,796	31.0%	13.4%	306	118
20th Century Select	2,393	24.3	11.5	222	96
Sequoia[4]	716	19.2	18.5	129	109
Vanguard Windsor[4]	4,570	18.9	18.5	120	114
S&P 500		15.3			

[1]Dec. 31, 1987. [2]Dec. 31, 1977–Dec. 31, 1987. [3]S&P 500 = 100. [4]Closed to new investors.

Stock and balanced funds

This table rates 379 equity funds having at least $10 million in assets on their performance through Dec. 31, 1987. Domestic stock funds, domestic balanced funds and foreign stock funds, although listed together, were evaluated and ranked separately. To be rated, a fund must go back at least two full market cycles—to July 31, 1982. Funds that have been around since Feb. 28, 1978 are graded over three market cycles. The last cycle comprises an up from July 31, 1984 to Aug. 31, 1987, and a down from Aug. 31, 1987 to Dec. 31, 1987.

Fund	Performance in UP —markets—	DOWN	12-month total return
ABT Growth & Income Trust	B	D	3.8%
ABT Utility Income Fund	D	A	–4.0
*Acorn Fund	B	C	2.8
Adams Express	C	B	–0.5
Affiliated Fund	B	B	3.8
*Afuture Fund	D	C	–11.4
Aim Convertible Securities	D	D	–15.5
Alliance Balanced Shares	B	B	0.4
Alliance Dividend Shares	C	B	0.8
Alliance Fund	C	D	5.2
†Alliance Global Fund-Canadian Fund	F	B	11.7
Alliance Technology Fund	A	D	18.6%
AMA Growth Fund-Classic Growth	D	D	–1.8
Amcap Fund	B	B	11.7
American Balanced Fund	C	B	3.8
American Capital Comstock Fund	C	A	–0.2
American Capital Convertible Securities	A	D	–14.7
American Capital Enterprise Fund	A	D	1.1
American Capital Harbor Fund	A	D	–3.8
American Capital Pace Fund	B	A	1.6
American Capital Venture Fund	D	A	4.0
American Growth Fund	D	B	3.5

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over up market periods from 10/31/76 to 10/31/80 and 9/30/82 to 8/31/87 and down market periods from 10/31/80 to 9/30/82 and 8/31/87 to 12/31/87. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index.

Sources: CDA Investment Technologies, Forbes.

Fund Ratings

Stock & balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
American Investors Growth Fund	C	F	–2.2%
American Leaders Fund	D	A	4.7
American Mutual Fund	D	A	4.6
American National Growth Fund	B	C	13.3
American National Income Fund	D	A	3.8
AMEV Capital Fund	A	B	2.4
AMEV Fiduciary Fund	A	C	0.3
AMEV Growth Fund	A	C	–0.1
*Analytic Optioned Equity Fund	D	A	4.3
*Armstrong Associates	C	C	4.1
†ASA Limited	A	D	11.2
Axe-Houghton Fund B	B	D	–3.2
Axe-Houghton Stock Fund	A	F	–5.8
*Babson Growth Fund	C	D	3.1
Baker, Fentress & Co	B	C	1.4
Bancroft Convertible Fund	B	D	1.5
Boston Co Capital Appreciation Fund	C	C	0.4
Bull & Bear Capital Growth Fund	B	D	–4.3
Bull & Bear Equity-Income Fund	D	B	–4.7
Cardinal Fund	C	B	2.3
Castle Convertible Fund	D	B	–7.4
Central Securities	B	C	7.6
*Century Shares Trust	D	A	–8.0
Charter Fund	B	B	10.0
Cigna Growth Fund	C	C	3.9
Claremont Capital	B	A	6.4
Colonial Equity Income Trust	C	B	–2.9
Colonial Fund	B	D	–0.9
Colonial Growth Shares Trust	B	C	2.8
Colonial Strategic Income-Diversified	D	B	4.8
*Columbia Growth Fund	B	C	15.9
Commonwealth Indenture A & B	D	A	–1.3
Commonwealth Indenture C	D	A	0.6
Composite Bond & Stock Fund	C	C	–1.2
Composite Growth Fund	C	B	–0.7
Constellation Growth Fund	A+	F	1.9
*Copley Fund	D	A	–8.3
Corp Leaders Tr Fund Certificates Ser B	B	C	–7.1
Country Capital Growth Fund	C	C	5.2
Criterion Income-Commerce Inc Shares	C	B	7.9
Criterion Pilot Fund[1]	C	C	10.5
Criterion Sunbelt Growth Fund	C	C	1.4
Dean Witter American Value Fund	B	C	2.7
Dean Witter Dividend Growth Secs	C	A	–0.6
Dean Witter Natural Resource Dev	D	C	12.0
Decatur Fund-Series I	C	A	2.4%
Delaware Fund	C	B	–4.3
Delta Trend Fund	C	C	–7.8
*Dodge & Cox Balanced Fund	A	C	7.7
*Dodge & Cox Stock Fund	A	B	12.5
Drexel Burnham Fund	C	B	7.0
*Dreyfus Convertible Securities Fund	C	D	–2.7
*Dreyfus Fund	D	B	8.5
*Dreyfus Growth Opportunity Fund	A	D	6.4
Dreyfus Leverage Fund	B	B	11.0
*Dreyfus Third Century Fund	B	D	2.4
Eaton & Howard Stock Fund	D	B	–3.5
Eaton Vance Growth Fund	B	B	10.9
Eaton Vance Income Fund of Boston	D	A	3.4
Eaton Vance Investors Fund	C	C	5.2
Eaton Vance Special Equities Fund	D	B	2.0
Eaton Vance Total Return Trust	C	A	–15.7
*Energy Fund	C	C	0.6
Engex	A+	F	–39.3
Enterprise Group-Growth[2]	C	B	11.5
*Equity Strategies Fund	C	D	–16.2
*Evergreen Fund	A	C	–3.9
*Evergreen Total Return Fund	C	A	–8.3
Fairfield Fund	A	D	–2.9
*Fairmont Fund	B	B	–7.7
FBL Series Fund-Growth[3]	D	C	–11.3
*Federated Stock & Bond Fund	D	A	3.6
*Federated Stock Trust	B	A	1.7
*Fidelity Contrafund	B	D	–2.1
*Fidelity Destiny Portfolio I	A	B	6.5
Fidelity Equity-Income Fund	C	A	–1.5
*Fidelity Fund	C	B	3.1
Fidelity Magellan Fund	A+	B	0.8
*Fidelity Puritan Fund	D	A	–1.9
Fidelity Select-Energy	D	C	–1.7
Fidelity Select-Financial Services	A	B	–16.6
Fidelity Select-Health Care	A	D	–0.7
Fidelity Select-Prec Metals & Minerals	B	C	37.5
Fidelity Select-Technology	C	D	–11.9
Fidelity Select-Utilities	D	A	–9.3
*Fidelity Trend Fund	B	D	–3.3
*Fidelity Value Fund	B	C	–8.6
*Fiduciary Capital Growth Fund	D	C	–8.9
*Financial Dynamics Fund	C	D	–3.5
*Financial Industrial Fund	C	C	0.0

*Fund has no load or shareholder paid 12b-1 plan. †Foreign funds were rated over up-market periods from 10-31-76 to 10-31-80 and 9-30-82 to 8-31-87 and down market periods from 10-31-80 to 9-30-82 and 8-31-87 to 12-31-87. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Pilot Fund. [2]Formerly Alpha Fund. [3]Formerly Farm Bureau Growth Fund.

Sources: CDA Investment Technologies, Forbes.

Fund Ratings

Stock & balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
*Financial Industrial Income Fund	D	B	4.9%
First Investors Discovery Fund	D	D	–19.1
First Investors Fund for Growth	D	F	–8.4
First Investors Natural Resources	F	D	20.8
First Investors Option Fund	F	A	–2.5
44 Wall Street Equity Fund	C	F	–41.9
*44 Wall Street Fund	D	F	–34.6
Founders Equity Income Fund	D	A+	1.9
Founders Growth Fund	A	C	11.7
Founders Mutual Fund	C	C	2.4
*Founders Special Fund	A	D	5.3
FPA Capital Fund	C	C	10.9
FPA Paramount Fund	D	A	21.4
Franklin Dynatech Fund	C	C	13.7
Franklin Equity Fund	B	C	–0.9
†Franklin Gold Fund	B	D	51.0
Franklin Growth Fund	C	B	20.1
Franklin Income	C	A	3.8
Franklin Option Fund	D	B	2.3
Franklin Utilities Fund	F	A+	–5.5
Fund of America	C	B	8.1
Fund of the Southwest	C	D	–3.8
Fundamental Investors	B	B	3.9
*Gateway Option Income Fund	F	A	–5.7
General American Investors	A	D	–10.0
*General Securities	D	B	1.9
Gintel ERISA Fund	D	A	–1.1
Gintel Fund	D	C	–14.2
Golconda Investors	C	D	30.3
Greenway Fund	B	D	–3.3
Growth Fund of America	A	B	8.6
*Growth Industry Shares	C	C	6.7
*Guardian Mutual Fund	B	C	–0.5
Guardian Park Ave Fund	B	B	2.9
John Hancock Growth Trust	A	D	5.9
*Hartwell Emerging Growth[1]	A+	F	8.2
*Hartwell Growth Fund	A+	D	23.3
Hutton Investment-Growth	C	A	15.7
*IAI Regional Fund	A	B	5.2
*IAI Stock Fund	C	B	15.4
IDS Discovery Fund	C	D	–10.2
IDS Equity Plus	B	C	10.3
IDS Growth Fund	A+	D	–0.7
IDS Mutual	C	B	5.9
IDS New Dimensions Fund	A	B	15.3
IDS Progressive Fund	C	B	1.8%
IDS Stock Fund	D	B	9.6
Income Fund of America	D	A+	0.9
Interstate Capital Growth Fund	F	D	–1.7
Investment Company of America	B	B	4.8
Investment Trust of Boston	C	D	0.5
Investors Research Fund	A	D	10.7
IRI Stock Fund	B	B	5.4
ISI Growth Fund	F	A	0.2
ISI Trust Fund	F	A+	4.3
*Ivy Growth Fund	C	A	–1.8
*Janus Investment Fund	C	A	3.9
†Japan Fund[2]	C	A	31.1
JP Growth Fund	D	B	0.1
Kemper Growth Fund	A	D	8.3
Kemper Option Income Fund	F	A	–7.9
Kemper Summit Fund	A	D	2.5
Kemper Total Return Fund	A+	F	–2.1
Keystone Custodian K-1	D	C	3.6
Keystone Custodian K-2	B	D	–1.6
Keystone Custodian S-1	C	C	5.5
Keystone Custodian S-3	B	D	5.9
Keystone Custodian S-4	A	F	–5.9
†Keystone International Fund	D	B	9.0
†Keystone Precious Metals Holdings	B	F	42.5
†Kleinwort Benson Transatlantic Growth	C	D	9.1
Lehman Capital Fund	A	B	1.8
Lehman Corp	B	C	1.3
Lehman Investors Fund	C	B	0.3
*Lehman Opportunity Fund	B	B	4.5
Lepercq-Istel Fund	D	C	2.3
*Leverage Fund of Boston	B	F	–6.2
Lexington Goldfund	A	C	46.3
Lexington Growth Fund	B	D	0.0
Lexington Research Fund	C	C	0.0
*Lindner Fund	D	A+	9.8
*Loomis-Sayles Capital Develop Fund	A+	B	15.1
*Loomis-Sayles Mutual Fund	A	B	13.7
Lord Abbett Developing Growth	C	D	0.8
*Mairs & Power Growth Fund	C	C	–2.7
Manhattan Fund	A	C	0.4
*Horace Mann Growth Fund	C	C	5.8
Mass Capital Development Fund	A	C	3.9
Mass Financial Development Fund	A	D	5.4
Mass Financial Emerging Growth Trust	A	D	–10.2

*Fund has no load or shareholder paid 12b-1 plan. †Foreign funds were rated over up market periods from 10/31/76 to 10/31/80 and 9/30/82 to 8/31/87 and down market periods from 10/31/80 to 9/30/82 and 8/31/87 to 12/31/87. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Hartwell Leverage Fund. [2]One percent redemption fee will be discontinued Feb. 14, 1988.

Sources: CDA Investment Technologies; Forbes.

Fund Ratings

Stock & balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
Mass Financial Total Return Trust	B	C	3.5%
Mass Investors Growth Stock Fund	B	C	5.7
Mass Investors Trust	B	C	7.5
*Mathers Fund	B	B	26.2
Medical Technology Fund	A	D	–1.9
Meeschaert Capital Accumulation	D	B	–0.7
Merrill Lynch Basic Value Fund	C	B	4.2
Merrill Lynch Capital Fund	C	A	4.3
Merrill Lynch Equi-Bond I Fund	D	B	5.7
Merrill Lynch Special Value	D	D	–18.6
MidAmerica High Growth Fund	D	B	8.6
MidAmerica Mutual Fund	D	A	8.3
Mutual Benefit Fund	C	B	–4.5
Mutual of Omaha Growth Fund	D	C	–3.4
Mutual of Omaha Income Fund	F	A	6.8
*Mutual Qualified Income Fund	C	A+	7.5
*Mutual Shares Corp	D	A	6.2
National Aviation & Technology	C	D	–12.3
National Growth Fund	D	D	–13.4
*National Industries Fund	D	C	11.2
National Stock Fund	D	B	–3.6
National Total Income Fund	C	B	1.9
National Total Return Fund	B	C	–2.2
Nationwide Fund	D	B	2.5
Nationwide Growth Fund	C	B	2.7
Nautilus Fund	D	D	–14.8
Neuwirth Fund	B	D	–10.2
New England Equity Income Fund	D	A	0.5
New England Growth Fund	A	A	18.1
New England Retirement Equity Fund	B	A	10.6
†New Perspective Fund	D	A	12.8
New York Venture Fund	A	C	–0.2
Newton Growth Fund	B	D	–3.6
Niagara Share Corp	A	D	–4.8
*Nicholas Fund	B	A	–1.3
*Northeast Investors Growth	A	C	–3.2
Nova Fund	C	C	5.8
Omega Fund	B	D	7.8
One Hundred Fund	C	C	17.7
Oppenheimer Directors Fund	B	D	–3.7
Oppenheimer Equity Income Fund	C	B	9.3
Oppenheimer Fund	B	D	–1.9
†Oppenheimer Global Fund	B	C	–2.2
Oppenheimer Premium Income	F	A+	45.3
Oppenheimer Special Fund	D	C	–9.1
Oppenheimer Target Fund	B	D	–17.5%
Oppenheimer Time Fund	A	C	8.4
Oppenheimer Total Return Fund	C	C	12.6
Over-the-Counter Securities Fund	C	C	–13.1
Partners Fund	B	A	4.2
Pax World Fund	C	D	2.2
*Penn Square Mutual Fund	D	B	4.9
*Pennsylvania Mutual Fund	C	B	1.4
Petroleum & Resources Corp	B	D	3.2
Philadelphia Fund	D	C	3.7
Phoenix Balanced Fund	B	C	9.7
Phoenix Convertible Fund	D	A+	10.6
Phoenix Growth Fund	B	A	11.4
Phoenix Stock Fund	A	B	11.3
Phoenix Total Return	D	B	11.1
Pilgrim MagnaCap Fund	C	A	0.7
Pine Street Fund	C	C	–5.1
Pioneer Fund	B	C	4.9
Pioneer II	B	C	–0.4
*T Rowe Price Growth Stock Fund	C	D	3.3
*T Rowe Price New Era Fund	A	D	17.5
*T Rowe Price New Horizons Fund	B	D	–7.3
Princor Capital Accumulation Fund	C	A	6.1
Princor Growth Fund	B	D	3.0
Provident Fund for Income	D	B	1.6
Prudential-Bache Equity Fund	B	B	1.3
Prudential-Bache Growth Opportunity	B	D	–8.5
Prudential-Bache Utility Fund	D	A	–8.7
Putnam Convertible Income-Growth	D	B	–5.8
Putnam Energy-Resources Trust	D	F	8.8
Putnam Fund for Growth & Income	C	B	1.1
George Putnam Fund of Boston	B	C	3.7
Putnam Health Sciences Trust	A	C	6.3
†Putnam International Equities Fund	B	C	7.2
Putnam Investors Fund	B	C	0.9
Putnam Option Income Trust	D	B	–6.5
Putnam Vista Basic Value	A	B	5.2
Putnam Voyager Fund	A	D	10.6
*Quasar Associates	A+	D	1.4
*Quest for Value Fund	C	A+	–2.1
Rochester Tax Managed Fund	F	B	–9.9
*Safeco Equity Fund	C	D	–4.4
*Safeco Growth Fund	C	C	7.4
*Safeco Income Fund	D	A	–6.2
*Scudder Capital Growth Fund	B	C	–0.8

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over up market periods from 10/31/76 to 10/31/80 and 9/30/82 to 8/31/87 and down market periods from 10/31/80 to 9/30/82 and 8/31/87 to 12/31/87. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index.

Sources: CDA Investment Technologies, Forbes.

Fund Ratings

Stock & balanced funds

Fund	Performance in UP markets	Performance in DOWN markets	12-month total return
*Scudder Development Fund	C	C	–1.6%
*Scudder Growth & Income Fund	B	C	3.5
*†Scudder International Fund	C	C	1.0
Security Equity Fund	A	D	4.6
Security Investment Fund	D	C	1.0
Security Ultra Fund	A	D	–18.2
Selected American Shares	D	A	0.2
Selected Special Shares	C	D	1.0
Seligman Capital Fund	A	D	–2.6
Seligman Common Stock Fund	B	B	0.2
Seligman Growth Fund	B	D	3.3
Seligman Income Fund	D	A	–4.0
Sentinel Balanced Fund	C	B	0.7
Sentinel Common Stock Fund	C	A	0.0
Sentinel Growth Fund	A	C	6.4
Sentry Fund	B	D	–6.0
*Sequoia Fund	D	A+	7.2
Shearson Appreciation Fund	A	B	7.0
Shearson Fundamental Value Fund	D	B	2.5
Sigma Capital Shares	B	B	–1.3
Sigma Investment Shares	C	B	3.3
Sigma Special Fund	B	C	6.0
Sigma Trust Shares	C	C	–1.8
Sigma Venture Shares	B	D	–13.6
Smith Barney Equity Fund	B	C	11.5
Smith Barney-Income & Growth	D	A	–2.8
†SoGen International Fund	D	A+	13.8
Source Capital	D	A+	1.7
Sovereign Investors	D	A	0.2
State Bond Common Stock Fund	C	D	6.0
State Bond Diversified Fund	D	B	2.8
*State Street Investment Corp	B	C	6.9
Steadman Associated Fund	F	C	–24.5
*Stein Roe & Farnham Cap Opportunity	A+	F	4.7
*Stein Roe & Farnham Stock Fund	A	D	3.7
*SteinRoe Special Fund	A	C	1.1
*SteinRoe Total Return Fund	B	F	0.4
*SteinRoe Universe Fund	B	D	–2.6
Strategic Investments Fund	A+	F	23.6
*Stratton Growth Fund	D	C	–4.3
*Stratton Monthly Dividend Shares	D	A+	–11.3
Strong Investment Fund	C	B	–0.5
Strong Total Return Fund	A	C	5.8
Surveyor Fund	B	D	–3.1
Technology Fund	A	D	8.7
*Templeton Global I	B	C	–11.7%
†Templeton Growth Fund	C	B	3.0
Templeton World Fund	C	B	3.3
Tri-Continental Corp	B	C	2.9
*Tudor Fund	A	C	1.1
*20th Century Growth Investors	A+	D	13.3
*20th Century Select Investors	A+	C	5.7
*20th Century Ultra Investors	A	F	6.4
*Unified Growth Fund	C	C	–10.9
*Unified Income Fund	C	D	–11.6
*Unified Mutual Shares Fund	D	B	–2.3
United Accumulative Fund	C	B	4.5
United Continental Income Fund	B	D	–8.0
United Income Fund	D	A	7.2
†United International Growth	D	A	17.0
United Retirement Shares	C	C	–3.4
United Science & Energy Fund	B	C	12.4
*†United Services-Gold Shares Fund	A+	D	31.6
*United Services-Good & Bad Times	D	B	0.6
US Trend Fund	B	C	18.0
United Vanguard Fund	B	B	8.8
*USAA Mutual-Growth Fund	C	D	8.0
*USAA Mutual-Sunbelt Era Fund	B	D	0.1
*Value Line Fund	B	C	4.7
*Value Line Income Fund	D	A	–1.7
*Value Line Leveraged Growth Inv	B	B	3.0
*Value Line Special Situations Fund	C	D	–9.6
†Van Eck-International Investors	A	C	34.8
Vance, Sanders Special Fund	D	C	–6.8
*Vanguard Explorer Fund	C	D	–6.7
*Vanguard High Yield Stock[1]	D	A+	–4.8
*Vanguard Index Trust	B	C	4.7
*Vanguard WL Morgan Growth Fund	B	C	4.7
*Vanguard Naess & Thomas Special Fund	C	D	–7.3
*Vanguard Trustees' Commingled-US	B	B	1.6
*Vanguard Wellesley Income Fund	D	A+	–1.9
*Vanguard Wellington Fund	A	C	2.3
*Vanguard Windsor Fund	B	A	4.8
Wall Street Fund	C	D	–2.3
Washington Mutual Investors	C	A	1.3
Weingarten Equity Fund	A+	D	9.6
*WPG Fund	A	C	6.8

*Fund has no load or shareholder-paid 12b-1 plan. †Foreign funds were rated over up market periods from 10/31/76 to 10/31/80 and 9/30/82 to 8/31/87, and down market periods from 10/31/80 to 9/30/82 and 8/31/87 to 12/31/87. Foreign market cycles were measured with the dollar-adjusted Morgan Stanley Capital International EAFE (Europe Australia Far East) Index. [1]Formerly Vanguard Dividend I Fund.

Sources: CDA/Investment Technologies, Forbes.

Fund ratings

Bond and preferred funds

We told you so—or at least we warned you about the risks.

The bond rating tables published here a year ago introduced a new statistic, interest rate risk. It's a measure of how sensitive a bond portfolio is to changes in interest rates. When rates head down, which is bullish for the bond market, a highly sensitive portfolio will do best; a portfolio with very low sensitivity will look second-rate.

There was good reason for the new measure. Go down is what rates did the previous year. In 1986 funds with the riskiest bonds—other things being equal, those with the longest maturities—had the best total returns. But, we noted, those same funds can be expected to do the worst in a period of rising rates. Which is what happened in 1987.

Consider Dreyfus A Bonds Plus, rated as high risk in the Feb. 9, 1987 report. It had a better than average 13.9% return in 1986, a good chunk from capital gains as bonds climbed in price. But the risk boomeranged in last year's bear market, and the fund's total return for 1987 was minus 1.1%. The high-risk rating continues this year.

Now look at Federated Short-Intermediate, rated very low in interest rate risk. It did poorly in 1986 (total return: 9.5%) but among the best last year (5%).

We calculate rate risk by comparing the fund's monthly returns over the last 24 months with the returns on our benchmark, the Merrill Lynch Corporate/Government bond index. No rate-risk rating is shown if the fund is less than two years old or if it has not historically paralleled the overall bond market. Please note that the rating measures interest rate sensitivity only. Credit risk is not captured in this statistic. We won't know how badly those junk bond funds will do in a recession until we get one.

Open-end bond funds are listed here if they have been in existence since Dec. 31, 1986 and had at least $100 million in assets June 30, 1987. Most of the raw data come from CDA Investment Technologies.

Fund	—12-month— total return	yield	Interest rate risk
Advantage Government Securities Fund	–3.8%	7.3%	
Alliance Bond Fund-High Yield	–2.0	13.6	
Alliance Bond Fund-US Government	3.7	11.0	very low
Alliance Mortgage Securities Income	3.5	11.1	low
American Capital Corp Bond Fund	6.1	11.8	
American Capital Government Securities	–1.5	9.0	average
American Capital High Yield Inv	2.2	13.5	
American Funds Income-US Govt Guar	1.0	9.8	average
AMEV US Govt Securities Fund	3.7	9.5	average
*Bartlett Capital Trust-Fixed Income	2.8	8.9	
*Benham Government Income-GNMA	2.8	9.1	average
Bond Fund of America	2.0	10.2	high
Bull & Bear High Yield Fund	–6.4	14.5	
Cardinal Government Guaranteed Fund	4.0	9.6	
Cigna High Yield Fund	3.1	12.4	
Cigna Income Fund	0.6	9.1	very high
Colonial Govt Securities Plus Trust	0.0	7.3	very high
Colonial High Yield Securities	4.3	11.7	
Colonial Income Trust	0.3	11.3	very low
*Columbia Fixed Income Securities	1.3	8.4	average
Composite Income Fund	6.0	10.7	
Composite US Govt Securities	2.1	9.3	
Criterion Bond-Investment Quality	1.1	10.5	very high
Criterion Bond-US Govt High Yield	2.3	8.4	low
Dean Witter High Yield Secs	–0.7	14.7	
Dean Witter US Govt Securities	3.9	9.9	low
Delaware Treasury Reserves-Investors	5.3	7.0	very low
Delchester Bond Fund	5.1	12.6	

Fund	—12-month— total return	yield	Interest rate risk
Drexel Series-Government Securities	–2.0%	7.3%	high
*Dreyfus A Bonds Plus	–1.1	9.3	high
Dreyfus GNMA Fund	1.8	9.2	average
Eaton Vance Govt Obligations Trust	4.3	10.2	average
Federated Corporate Cash Trust	2.1	6.5	
*Federated GNMA Trust	3.5	9.7	average
Federated High Income Securities	0.0	13.2	
*Federated High Yield Trust	1.2	13.0	
*Federated Income Trust	4.6	9.7	
*Federated Intermediate Government	3.8	8.2	average
*Federated Short-Intermediate Govt	5.0	7.6	very low
*Fidelity Flexible Bond Fund	0.1	9.3	high
*Fidelity Ginnie Mae	1.2	8.7	average
*Fidelity Government Securities Fund	1.1	9.0	average
*Fidelity High Income Fund	1.3	12.4	
*Fidelity Intermediate Bond Fund	–1.1	12.8	average
*Fidelity Mortgage Securities	2.7	9.1	average
First Investors Bond Appreciation	–7.0	12.2	
First Investors Fund for Income	–2.3	13.0	
First Investors Government Fund	–1.2	8.1	average
First Trust Fund-US Government	2.8	8.5	
Franklin AGE High Income Fund	1.2	13.1	
Franklin US Government Securities Fund	4.3	10.1	low
Freedom Investment-Government Plus	0.9	9.2	
FS Government Securities Income Fund[1]	–3.3	9.2	high
Fund for US Govt Securities	5.4	9.3	
Government Income Securities	4.0	9.4	
Home Investors Govt Guaranteed Income	1.1	8.4	average

*Fund has no load or shareholder-paid 12b-1 plan. [1]Formerly Yes Fund.

Sources: CDA Investment Technologies; Forbes.

Bond and preferred funds

Fund	—12-months— total return	yield	Interest rate risk
Hutton Investment-Bond & Income	–3.1%	10.6%	very high
Hutton Investment-Govt Securities	–5.3	10.9	average
IDS Bond Fund	–0.1	10.0	high
IDS Extra Income Fund	0.9	11.7	
IDS Federal Income Fund	2.5	8.2	average
IDS Selective Fund	1.4	9.2	high
IDS Strategy Fund-Income	–1.8	6.0	
Investment Portfolios-Govt Plus	1.8	10.7	average
Investment Portfolios-High Yield	5.8	12.6	
John Hancock Bond Trust	0.8	9.7	average
John Hancock US Govt Guaranteed Mort	1.9	9.8	
John Hancock US Govt Securities	–1.2	8.7	high
Kemper High Yield Fund	8.1	11.7	
Kemper Income & Capital Preservation	3.1	11.0	average
Kemper US Govt Securities	2.6	10.9	high
Keystone Custodian B-1	–2.6	8.7	high
Keystone Custodian B-2	0.4	9.9	
Keystone Custodian B-4	–3.9	12.9	
Kidder Peabody Govt Income Fund	2.6	7.7	average
Lexington GNMA Income Fund	1.0	9.0	average
Lord Abbett Bond-Debenture Fund	2.0	11.9	
Lord Abbett US Government Securities	1.5	11.5	high
Mass Financial Bond Fund	–1.3	9.1	high
Mass Financial High Income-Series I	–0.9	14.6	
Mass Financial International-Bond	24.5	18.3	
Merrill Lynch Corp Bond-High Income	4.9	12.2	
Merrill Lynch Corp Bond-High Quality	0.4	9.0	average
Merrill Lynch Corp Bond-Intermediate	0.6	8.6	average
Merrill Lynch Federal Securities	2.6	9.0	average
Merrill Lynch Retirement/Income Fund	1.5	8.6	
MFS Government Guaranteed Secs	0.2	9.5	low
MFS Government Securities High Yield	–3.6	10.5	
National Bond Fund	–4.6	18.7	
National Federal Securities Trust	–5.6	11.0	high
*Neuberger & Berman Ltd Maturity Bond	3.6	6.9	
New England Govt Securities Fund	–0.1	7.4	high
*Northeast Investors Trust	0.1	16.3	
Oppenheimer High Yield Fund	7.2	13.7	
Oppenheimer US Government	2.6	8.4	average
PaineWebber Fixed Inc-GNMA	0.5	8.8	average
PaineWebber Fixed Inc-High Yield	–2.3	13.3	
PaineWebber Fixed Inc-Invest Grade	–1.7	9.6	high
PaineWebber Master Series Income	–2.8	8.7	

Fund	—12-months— total return	yield	Interest rate risk
Phoenix High Yield Fund	1.6%	13.1%	
Pilgrim GNMA Fund	0.9	9.9	
Pilgrim Preferred Fund	–9.1	13.6	
*T Rowe Price GNMA Fund	0.9	9.7	low
*T Rowe Price High Yield Fund	3.0	12.8	
*T Rowe Price New Income Fund	2.0	8.7	average
*T Rowe Price Short-Term Bond Fund	5.2	7.6	very low
Prudential-Bache GNMA Fund	1.1	7.7	average
Prudential-Bache Government Plus	0.5	7.1	
Prudential-Bache Govt Secs-Inter Term	1.9	8.6	average
Prudential-Bache High Yield Fund	1.7	11.1	
Putnam GNMA Plus Trust	–1.2	12.2	
Putnam High Income Government Trust	–1.1	8.9	very high
Putnam High Yield Trust	4.6	13.1	
Putnam High Yield Trust II	6.1	12.0	
Putnam Income Fund	1.9	11.7	average
Putnam US Govt Guaranteed Securities	4.6	10.2	low
*Scudder Government Mortgage Securities	1.6	8.9	average
*Scudder Income Fund	3.0	8.7	average
Seligman High Inc-US Govt Guaranteed	–3.2	8.1	very high
Shearson High Yield Fund	5.8	12.6	
Shearson Lehman-Long Term Govt	–1.2	7.5	average
Shearson Managed Governments	1.4	8.8	low
Smith Barney-US Government	2.7	10.3	
*SteinRoe Managed Bonds	2.5	10.3	high
*Strong Income Fund	4.4	13.2	
Thomson McKinnon Inves-Income	4.8	11.1	
Thomson McKinnon Inves-US Govt	–0.2	10.0	average
*20th Century US Govt Investors	3.7	8.3	low
United Bond Fund	4.5	9.0	high
United Government Securities	–3.4	8.6	very high
United High Income Fund	0.0	13.8	
*USAA Mutual-Income Fund	2.6	9.5	average
*Value Line US Government Securities	3.4	12.9	low
Van Kampen Merritt High Yield Fund	7.2	12.4	
Van Kampen Merritt US Government	1.5	9.9	high
*Vanguard Adj Rate Preferred[1]	3.0	6.6	
*Vanguard Convertible Securities Fund	–10.7	7.0	
*Vanguard Fixed Income Secs-GNMA	2.1	9.5	average
*Vanguard Fixed Income Secs-High Yield	2.6	12.1	
*Vanguard Fixed Income Secs-Invest Grade	0.2	9.9	high
*Vanguard Fixed Income Secs-Short Term	4.4	7.3	low
*Vanguard Preferred Stock[2]	–6.5	9.5	

*Fund has no load or shareholder-paid 12b-1 plan. [1]Formerly Vanguard Qualified Dividend III. [2]Formerly Vanguard Qualified Dividend II.

Sources: CDA Investment Technologies; Forbes.